



**Statement of W. Thomas Haynes**

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**Senate Committee on Small Business & Entrepreneurship**

**“Solving the Small Business Health Care Crisis: Alternatives for Lowering the Costs  
and Covering the Uninsured”**

**April 20, 2005**

Thank you, Chairman Snowe, for the opportunity to testify before the Senate Committee on Small Business & Entrepreneurship to discuss policy solutions aimed at providing small businesses and their employees with access to affordable health insurance. I am appearing today as Executive Director of the Coca-Cola Bottlers' Association (CCBA), which represents 77 bottlers and 87,000 employees in all 50 states. I also am appearing as President of The Association Healthcare Coalition (TAHC), a coalition of trade and professional associations that have decades of experience in operating Association Health Plans (AHPs).

The CCBA and TAHC strongly support S. 406, the Small Business Health Fairness Act, which would strengthen and expand the ability of bona fide associations to deliver affordable health care benefits to small businesses through the sponsorship of AHPs. We view S. 406 as a critical component of any federal policy changes aimed at expanding access to affordable health coverage for small businesses and reducing the nation's uninsured population, and we urge Congress to enact the legislation in 2005. I want to especially commend Chairwoman Snowe and the other cosponsors of S. 406 for their leadership on this legislation. We also want to commend President Bush and Secretary of Labor Chao for their leadership on behalf of the AHP legislation.

S. 406 is vital to the ability of small and medium-sized businesses across the nation to obtain access to affordable health insurance. Today, I would like to discuss our experience at the CCBA with an Association Health Plan in order to illustrate how S. 406 can expand access to affordable health benefits to small employers, and how workers in small businesses are put at a great disadvantage to their counterparts working for large employers in today's markets. CCBA's experience represents a living example of the disparities created by the current system.

## Coca-Cola Bottlers' Association AHP

For 90 years, the CCBA has sponsored programs for our member bottlers. For most of that period, medical and other benefit programs have been one of our core offerings. We have historically administered two separate AHP plans: a fully-pooled program for small bottlers under 100 employees; and another experience rated program for those bottlers with over 100 employees.

Until recently, CCBA's AHP was able to significantly reduce the cost of insurance by combining over 60 small employers who participated in our fully pooled program with administrative costs of approximately 7%. This fully-pooled program for small employers (under 100 employees) was disbanded at the end of 2000 due to the overwhelming complexity of state small group reform laws and regulations. These well-meaning but counterproductive laws eliminated virtually all insurance companies from participating in multi-state arrangements due to their reluctance to navigate the myriad individual state premium and coverage requirements for small employers. Since then, health insurance premiums for our smaller member bottlers have increased from 20% to 25% annually. Further, their plan offerings have increasingly utilized higher copays, higher deductibles and higher annual out-of-pocket maximums. These changes have greatly reduced the employees' participation rates, effectively pricing 50% of the employees out of insurance and increasing the number of uninsured employees. Additionally, for many of those that remain insured, their quality of care has been negatively affected by changing insurance carriers annually, thereby forcing changes in covered providers associated with their new insurance carriers.

While CCBA was forced to disband our AHP for small employers, we have been able to continue operating the AHP for the benefit of our larger employer members (Coca-Cola bottlers with more than 100 employees). While our small employer members have incurred **20% to 25% annual** premium increases, our large employer members have been able to continue benefiting from the cost-saving efficiencies of participation in the CCBA AHP, with average annual premium increases of only **9%**. Our large employer AHP program also provides stability of plan design offerings and long term carrier contracting that enables access to a consistent provider panel enabling fewer provider – patient disruptions.

This situation clearly illustrates the severe disadvantage that small employers face relative to large employers in obtaining affordable health insurance coverage. It should be noted that while we can and do continue to operate a multi-state AHP plan for large employers, this program will also benefit from S. 406. This proposal will enable more insurance companies to enter into a market where there are few options available today. Under today's regulatory environment, our large employer multi-state AHP program must be fully-insured. Given the ability to self-fund our program, as would be provided under S. 406, we would be able to provide custom PPO network solutions for specific non-participating large employers in geographic areas where our current insurance carrier is reluctant to pursue expanding their network. Our large employer AHP has the potential to expand from its current enrollment of 6,000 employees to upwards of 15,000 employees if we are allowed the same options as corporations and unions utilize today. Growth of this AHP program will enable us to have greater leverage in negotiating long- term, cost-stabilizing contracts with available vendors.

The CCBA now delivers high quality, affordable health care benefits to its large employer members through an Association Health Plan. There is no good reason why a bona fide association like CCBA, which has vast experience in providing employee benefit plans for 90 years, should not be allowed to offer similar health benefits to small and large employers under the same uniform federal regulations under which corporate and union plans now operate.

With the passage of S. 406, the CCBA will again be able to provide health care benefits to over 60 small Coca-Cola bottlers through the AHP in which our large employers now participate. This would provide more affordable health benefits to thousands of workers! Moreover, without this legislation, our small bottlers will be forced to continue shifting costs to their employees, and even more may be forced to drop coverage altogether! Clearly Congress can not continue to allow this intolerable situation to continue!

Beyond the critical needs of our smaller bottlers and their employees for more affordable healthcare options, I want to emphasize that this issue is not just a dollars and cents issue, but a survival issue for small soft drink bottlers. Two decades ago, there were thousands of soft drink bottlers spread across the country. In part because of the effects of changes in operating efficiencies in soft drink production, but also because of the higher fixed costs of operating a small business, including benefits administration, ninety percent of those bottlers have disappeared through acquisitions by their larger, more efficient, brethren. CCBA's job is to do our best to allow the 75 non-public independent owners of Coca-Cola bottling operations to remain in business if they choose. The owners of those businesses, mostly fourth and fifth generation Coca-Cola families in places like Farmington, Maine, Deming, New Mexico, Pottsville, Pennsylvania, or Sitka and Kechikan, Alaska, and other communities look to us to help give them that option. For the most part, we have solved many of the operational challenges that caused many of their brethren to sell their business. Our biggest remaining challenge is to solve the problems associated with the disadvantages that they face in being small in providing competitive employee benefits, including health care. To solve that problem, we need Congress to enact S. 406 into law.

### **The Role of Associations in Health Care Benefits**

Bona fide trade and professional associations are established and run by their employer members and exist for the sole purpose of serving the needs of their members and members' employees. Bona fide associations, including national, regional and state-based associations, have been a vital source of health coverage for millions of American workers employed in small businesses for decades. Many associations have been sponsoring health plans for over 50 years. It is critical to note that bona fide associations are organized for purposes *other than* selling health insurance, a critical distinction in the debate over the proper role of associations in providing health benefits to employers and workers.

Associations are uniquely structured to be part of our healthcare delivery system. Because they are established to represent their members in other areas, they possess the infrastructure, administrative mechanisms, and experience needed to unify employers and employees into effective consumers of health services. By serving this need for small employers, associations add value to our health care system as a whole, as well as to their members.

Associations are able to purchase affordable health coverage for pools of small employers because they offer health plans that are specifically designed to meet the needs of their membership. Associations have traditionally offered a wide variety of approved health plans and managed care arrangements, both fully insured and self-funded. Health plans sponsored by bona fide associations have an outstanding track record in providing high quality health coverage to small businesses and their workers.

AHPs have already demonstrated the ability to provide savings in health insurance costs for small employers. Because they already exist for other purposes, associations are able to sponsor health plans with administrative costs that are substantially lower than similar costs charged by insurance companies when selling directly to a small employer. As indicated previously, our AHP at CCBA has administrative costs of approximately 7%. In contrast, a small employer on its own is likely to pay administrative costs of anywhere from 17% to 30% or even higher when purchasing coverage in the existing small group marketplace. The ability of AHPs to deliver health benefits with low administrative costs is extremely important to providing small employers with access to affordable health care benefits.

Unfortunately, the ability of associations to serve small businesses and their workers with affordable health benefits has severely declined in recent years. As inconsistent government mandates and regulations continue to proliferate at both the federal and state level, it is becoming more and more difficult for associations to provide affordable health benefits to their members. The regulation of AHPs on an inefficient, state-by-state basis thus jeopardizes the ability of AHPs to continue providing dependable and affordable health coverage to small businesses. In fact, many associations have had to close down their health plans because health insurance companies cannot afford the cost of compliance in multiple states. This has severely reduced the availability of AHPs for small businesses.

### **The Small Business Health Fairness Act**

S. 406 will allow associations to utilize the tools which corporate and union plans now use to keep health coverage affordable. In contrast to the regulation of AHPs on an inefficient state-by-state basis, large corporate and union health plans are exempt from state insurance regulations and mandates. It is time that Congress provided workers in small businesses with similar opportunities as are now afforded to their counterparts in large corporations and unions in the delivery of health benefits. By allowing AHPs sponsored by bona fide associations to operate under a uniform regulatory structure like corporate and union health plans, small business workers will receive the benefits of economies of scale, greater bargaining power, regulatory uniformity, and the flexibility to design benefit options that meet working families' needs.

The AHP legislation is the *only* policy option that levels the playing field between small businesses and large corporations in offering affordable health benefits. In order for small employers to be able to compete successfully in the marketplace for quality workers, it is vital that they have access to similar health benefit options now available to large corporations.

Another important component of S. 406 is that it will foster greater competition in health insurance markets. Over the past decade, many insurance carriers have left many of the state small group insurance markets, and small employers have fewer choices of insurance carriers

and fewer health plan choices. By facilitating the ability of associations to sponsor AHPs, S. 406 will provide small employers with more health plan options. This will ultimately bring about greater long-term price stability and reverse the current trends of skyrocketing health insurance premiums, declining benefits and fewer choices for small employers.

### **Response to Critics of S. 406**

Finally, I would like to respond to some of the criticisms that have been made by opponents of S. 406, and will do so in detail below. Let me assure you that it is in the interest of bona fide associations for Congress to approve legislation that 1) benefits workers of all types, including healthy and high risk individuals and groups; 2) has strong solvency protections; and 3) has strong oversight by the U.S. Department of Labor. We believe S. 406 can be positive for all small employers and their workers, bona fide associations, and the insurance industry all working together in a partnership to expand access to affordable health benefits, and we have always been willing to work with members of Congress and other parties in “good faith” efforts to achieve this objective. Regrettably, we have not seen such efforts from some other parties to have such a dialogue to move the bill forward. However, we today renew our invitation for other parties to step forward and work with us *in good faith* to improve the legislation rather than merely attempting to block it.

Opponents have suggested that the bill will harm some small business workers by driving up their premiums and would do little to reduce the number of uninsured Americans. Opponents often cite a study done by the Congressional Budget Office in 2000 when making such allegations.

However, the CBO study had several fundamental flaws. First, it *assumed* that AHPs cannot deliver health benefits to employers with substantially lower administrative costs than insurance companies selling to small employers directly. CBO based its incorrect assumption on a review of *one* study which found that *all types* of group purchasing arrangements considered collectively have not been effective in making health coverage affordable for small businesses. This study concluded:

Pooled purchasing does have a positive effect on employers’ provision of choice and information, but the effect fell far short of our expectations. This may be because we *combined all of the different forms of pooling....* Our evidence is far from definitive, however.... Clearly, there is a need for more research beyond what this first descriptive study can do (emphasis added).

CBO never looked specifically at AHPs! As indicated previously, CCBA’s AHP has administrative costs of about 7%, compared with similar administrative costs (including insurance company profits) of 17-30% or higher for insurance companies selling directly to small employers. Many other AHPs have proven that they can provide substantial savings to small employers of all types. I am aware that the primary author of the CBO study basically admitted to Senator Talent, then Chairman of the House Small Business Committee, at a public hearing, that CBO did not look specifically at AHPs in making its assumptions.

After making the above-discussed incorrect assumption, CBO then *assumed* that AHPs

will try to compete by offering scaled-down benefit packages in order to target low-risk employers or industries. This ignores the reality that small businesses must compete against large businesses for employees, and therefore must offer competitive benefit packages. It also incorrectly assumes that small business workers want benefit packages that are inferior to those offered by the state-regulated market and large businesses.

In reality, AHPs will be able to compete with insurance companies in offering comparable benefit packages for less cost through savings achieved from reducing administrative costs through operating efficiencies, as the CCBA and other associations have already proven can be done.

In contrast to the CBO study, an independent study done by the Consad Research Corporation for the National Federation of Independent Business in 1998 estimated that between 2 million and 8.5 million currently uninsured individuals will receive health insurance if AHP legislation similar to S. 406 is enacted.

Critics of S. 406 have also argued that, by providing AHPs with an exemption from state benefit mandates similar to that now utilized by corporate and union health plans, AHPs will reduce the amount of benefits currently available to small business workers. However, millions of small employers across the nation support S. 406 because it will *increase* affordable health care benefits to all small business workers. As CCBA and other associations have proven, AHPs can deliver health care benefits to small business workers who participate in an AHP for substantially less in administrative costs than small businesses purchasing coverage directly from insurance companies. Money saved from having lower administrative costs can be used to purchase more health care benefits (e.g., well child care, cancer screenings, etc.). Small employers want the same type of health benefit options now available to large corporations and will purchase more benefits for their workers if they can have access to plans with low administrative costs.

Currently, many small business workers, if they have access to health coverage at all, only have access to one health plan option. AHPs also will provide employers and workers with substantially more choices in health plan options from which to choose to best meet their needs.

Some critics have stated that the preemption of state insurance laws will enable AHPs to “cherry pick” healthy workers or groups. Again, because AHPs have shown they can deliver health care benefits with low administrative costs, AHPs will be able to provide affordable benefits to workers of all health types if given the proper set of tools. We believe S. 406 prevents AHPs from being able to exclude any individuals or employer groups based on health status. Further, S. 406 does not preempt state rating laws for fully-insured AHPs, and self-funded plans cannot charge higher rates for sicker individuals or groups within the plan, except to the extent already allowed under the relevant state rating law for an employer located in a given state. However, we would welcome the opportunity to work with Congress to consider additional provisions aimed at ensuring that AHPs serve small businesses of all types.

I would also note that the allegations made by opponents about adverse selection rest on the mistaken assumption that AHPs will offer primarily “bare bones” benefit packages to small employers. There is broad agreement that “bare bones” plans, where they have been tried, have failed due to lack of demand. This is because small business workers want Fortune-500 style benefits like those enjoyed by workers in large companies. Also, small businesses must offer benefit options like those offered by large companies if they are going to attract and retain quality employees.

In addition, adverse selection that currently exists in the balkanized state insurance markets will be reduced when younger, healthier workers who now choose to remain uninsured because of the high cost of coverage are able to obtain coverage that is affordable and are brought back into the insurance system through expanded AHPs.

Finally, some critics have stated that AHPs would not receive adequate federal oversight. However, AHPs would be regulated in a manner similar to how existing corporate and union health plans are regulated by the Department of Labor. The AHP bill extends additional solvency standards and certification rules to plans operated by qualifying bona fide trade and professional associations. In addition, the bill gives DOL enhanced criminal and civil enforcement powers currently not available to regulators, and thus it will help stop health fraud by assisting DOL in the termination of fraudulent health plans. We appreciate Secretary of Labor Chao’s testimony indicating that DOL has the expertise to properly regulate AHPs and will make sure that resources are made available for this purpose.

### **Conclusion**

S. 406 represents a market-oriented solution to the problem of declining access to affordable health benefits for our nation’s small employers. CCBA and TAHC strongly urge Congress to expand access to affordable health insurance for working families by enacting this legislation. The time for elimination of the health insurance “double standard” for small businesses is long past due!

Again, we commend Chairwoman Snowe for your leadership on S. 406, and look forward to working with all members of the committee to see that this legislation is enacted by the 109<sup>th</sup> Congress. Thank you for this opportunity to discuss Association Health Plans.